

49-2010

**CITY OF MACKINAC ISLAND
MACKINAC ISLAND, MICHIGAN**

**GENERAL PURPOSE
FINANCIAL STATEMENTS**

MARCH 31, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Mackinac Island	County Mackinac
Audit Date March 31, 2004	Opinion Date August 13, 2004	Date Accountant Report Submitted to State: November 30, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the **Governmental Accounting Standards Board (GASB)** and the Uniform **Reporting Format** for Financial Statements for Counties and Local **Units** of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

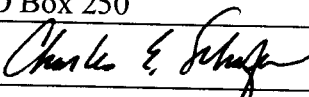
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson		Charles E. Schafer, CPA	
Street Address 902 S. Huron St., PO Box 250	City Cheboygan	State MI	ZIP 49721
Accountant Signature 			

CITY OF MACKINAC ISLAND

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

August 13, 2004

Honorable Mayor and Members
of the City Council
City of Mackinac Island
Mackinac Island, Michigan

We have audited the accompanying general purpose financial statements of the *City of Mackinac Island*, (the "City"), as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the general purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Rehmann Johnson

GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP

MARCH 31, 2004

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash and cash equivalents	\$ 60,636	\$ 1,816	\$ -	\$ 553,663
Investments	-	-	-	30,000
Accounts receivable	10,090	-	-	-
Taxes receivable	64,229	-	4,430	738
Due from other funds	20,631	4,873	-	-
Due from other governmental units	5,000	27,574	-	-
Restricted cash and cash equivalents	-	94,612	159,544	-
Restricted investments	-	-	-	-
Property, plant and equipment, net of accumulated depreciation	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for debt service	-	-	-	-
Total assets	\$ 160,586	\$ 128,875	\$ 163,974	\$ 584,401
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities				
Accounts payable	\$ 25,538	\$ -	\$ -	\$ -
Accrued expenses	20,687	4,873	-	-
Due to other funds	13,873	-	-	-
Notes payable	-	-	-	-
Bonds payable	-	-	-	-
Total liabilities	60,098	4,873	-	-
Equity and other credits				
Contributed capital	-	-	-	-
Retained earnings	-	-	-	-
Reserved	-	-	-	-
Unreserved	-	-	-	-
Fund balances	-	94,612	163,974	-
Reserved	-	-	-	-
Unreserved	-	-	-	-
Designated	7,454	-	-	463,344
Undesignated (deficit)	93,034	29,390	-	121,057
Total equity and other credits	100,488	124,002	163,974	584,401
Total liabilities, equity and other credits	\$ 160,586	\$ 128,875	\$ 163,974	\$ 584,401

The accompanying notes are an integral part of these general purpose financial statements.

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Account Group</u>	<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Trust And Agency</u>	<u>General Long- Term Debt</u>	
\$ 176,316	\$ 108,933	\$ -	\$ 901,364
-	-	-	30,000
451,764	-	-	461,854
-	-	-	69,397
9,000	-	-	34,504
-	-	-	32,574
587,769	-	-	841,925
161,791	-	-	161,791
13,771,026	-	-	13,771,026
-	-	163,974	163,974
-	-	793,137	793,137
<u>\$ 15,157,666</u>	<u>\$ 108,933</u>	<u>\$ 957,111</u>	<u>\$ 17,261,546</u>
\$ 175,853	\$ -	\$ -	\$ 201,391
27,062	-	-	52,622
-	20,631	-	34,504
-	-	457,111	457,111
3,155,000	-	500,000	3,655,000
<u>3,357,915</u>	<u>20,631</u>	<u>957,111</u>	<u>4,400,628</u>
8,120,527	-	-	8,120,527
313,085	-	-	313,085
3,366,139	-	-	3,366,139
-	88,302	-	346,888
-	-	-	470,798
-	-	-	243,481
<u>11,799,751</u>	<u>88,302</u>	<u>-</u>	<u>12,860,918</u>
<u>\$ 15,157,666</u>	<u>\$ 108,933</u>	<u>\$ 957,111</u>	<u>\$ 17,261,546</u>

CITY OF MACKINAC ISLAND
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED MARCH 31, 2004

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
Revenues				
Taxes	\$ 1,149,056	\$ -	\$ 91,791	\$ 15,295
Licenses and permits	369,791	-	-	-
Federal revenue	-	1,100	-	51,083
State revenue	60,405	153,431	-	-
Charges for services	-	20,515	-	-
Fines and forfeits	41,031	6,543	-	-
Rents and royalties	30,716	-	-	-
Refunds	-	-	85,543	-
Interest and dividends	19,958	2,046	3,007	12,616
Contributions	15,612	2,294	-	-
Miscellaneous	32,769	910	-	-
Total revenues	1,719,338	186,839	180,341	78,994
Expenditures				
Legislative	12,966	-	-	-
General government	517,716	20,009	-	-
Public safety	931,501	-	-	-
Public works	226,343	357,157	-	-
Culture and recreation	81,442	52,858	-	-
Other functions	167,609	-	-	-
Capital improvements	-	-	-	66,583
Debt service				
Principal payments	-	-	181,176	-
Interest and paying agent fees	-	-	35,440	-
Total expenditures	1,937,577	430,024	216,616	66,583
Revenues over (under) expenditures	(218,239)	(243,185)	(36,275)	12,411
Other financing sources (uses)				
Loan proceeds	336,286	-	-	-
Operating transfers in	100,000	277,592	21,710	-
Operating transfers out	(277,592)	(21,710)	-	(100,000)
Total other financing (uses) sources	158,694	255,882	21,710	(100,000)
Revenues and other sources (under) over expenditures and other uses	(59,545)	12,697	(14,565)	(87,589)
Fund balances, beginning of year	160,033	111,305	178,539	671,990
Fund balances, end of year	\$ 100,488	\$ 124,002	\$ 163,974	\$ 584,401

The accompanying notes are an integral part of these general purpose financial statements.

<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Expendable Trust</u>	
\$ -	\$ 1,256,142
-	369,791
-	52,183
-	213,836
1,600	22,115
-	47,574
-	30,716
-	85,543
1,697	39,324
-	17,906
-	33,679
<u>3,297</u>	<u>2,168,809</u>
-	12,966
-	537,725
-	931,501
-	583,500
-	134,300
-	167,609
-	66,583
-	181,176
-	35,440
<u>-</u>	<u>2,650,800</u>
<u>3,297</u>	<u>(481,991)</u>
-	336,286
-	399,302
-	(399,302)
<u>-</u>	<u>336,286</u>
3,297	(145,705)
<u>85,005</u>	<u>1,206,872</u>
<u>\$ 88,302</u>	<u>\$ 1,061,167</u>

CITY OF MACKINAC ISLAND

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED MARCH 31, 2004

	General Fund		Variance Favorable (Unfavorable)
	Amended Budget	Actual	
Revenues			
Taxes	\$ 1,149,500	\$ 1,149,056	\$ (444)
Licenses and permits	374,275	369,791	(4,484)
Federal revenue	-	-	-
State revenues	52,050	60,405	8,355
Charges for services	-	-	-
Fines and forfeits	46,300	41,031	(5,269)
Rents and royalties	29,400	30,716	1,316
Interest and dividends	14,100	19,958	5,858
Contributions	15,600	15,612	12
Miscellaneous	22,400	32,769	10,369
Total revenues	1,703,625	1,719,338	15,713
Expenditures			
Legislative	17,000	12,966	4,034
General government	480,871	517,716	(36,845)
Public safety	905,025	931,501	(26,476)
Public works	211,750	226,343	(14,593)
Culture and recreation	82,653	81,442	1,211
Other functions	151,500	167,609	(16,109)
Debt service			
Principal	4,200	-	4,200
Interest and paying agent fees	300	-	300
Total expenditures	1,853,299	1,937,577	(84,278)
Revenues over (under) expenditures	(149,674)	(218,239)	(68,565)
Other financing sources (uses)			
Loan proceeds	336,000	336,286	286
Operating transfers in	-	100,000	100,000
Operating transfers out	(241,975)	(277,592)	(35,617)
Total other financing (uses) sources	94,025	158,694	64,669
Revenues and other sources (under) over expenditures and other uses	(55,649)	(59,545)	(3,896)
Fund balances, beginning of year	160,033	160,033	-
Fund balances, end of year	\$ 104,384	\$ 100,488	\$ (3,896)

The accompanying notes are an integral part of these general purpose financial statements.

Special Revenue Funds		
Amended Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
-	1,100	1,100
151,500	153,431	1,931
19,250	20,515	1,265
8,200	6,543	(1,657)
-	-	-
3,200	2,046	(1,154)
9,000	2,294	(6,706)
-	910	910
<u>191,150</u>	<u>186,839</u>	<u>(4,311)</u>
-	-	-
20,100	20,009	91
-	-	-
355,550	357,157	(1,607)
51,525	52,858	(1,333)
-	-	-
-	-	-
<u>427,175</u>	<u>430,024</u>	<u>(2,849)</u>
<u>(236,025)</u>	<u>(243,185)</u>	<u>(7,160)</u>
-	-	-
241,975	277,592	35,617
(21,750)	(21,710)	40
<u>220,225</u>	<u>255,882</u>	<u>35,657</u>
(15,800)	12,697	28,497
<u>111,305</u>	<u>111,305</u>	<u>-</u>
<u>\$ 95,505</u>	<u>\$ 124,002</u>	<u>\$ 28,497</u>

CITY OF MACKINAC ISLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE -
LANDFILL AND WATER AND SEWER SYSTEM ENTERPRISE FUND**

FOR THE YEAR ENDED MARCH 31, 2004

Operating revenues	
Charges for services	<u>\$ 1,335,391</u>
Operating expenses	
Landfill	805,238
Sewer	671,150
Water	<u>643,189</u>
Total operating expenses	<u>2,119,577</u>
Operating loss	<u>(784,186)</u>
Non-operating revenues (expenses)	
Interest revenue	97,549
Interest expense	(173,525)
Other revenue	<u>14,591</u>
Total non-operating expenses	<u>(61,385)</u>
Net loss	<u>(845,571)</u>
ADD: Depreciation of fixed assets acquired with contributed capital	<u>338,629</u>
Decrease in retained earnings	<u>(506,942)</u>
Retained earnings, beginning of year	<u>4,186,166</u>
Retained earnings, end of year	<u><u>\$ 3,679,224</u></u>

The accompanying notes are an integral part of these general purpose financial statements.

CITY OF MACKINAC ISLAND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - LANDFILL AND WATER
AND SEWER SYSTEM ENTERPRISE FUND
FOR THE YEAR ENDED MARCH 31, 2004

Cash flows from operating activities	
Operating loss	\$ (784,186)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	626,794
Changes in operating assets and liabilities which (used) provided cash	
Accounts receivable	(2,230)
Prepaid expenses	6,909
Due from other funds	(9,000)
Due from other governmental units	87,291
Accounts payable	33,424
Accrued expenses	9,440
	<u> </u>
Net cash used in operating activities	<u>(31,558)</u>
Cash flows from non-capital financing activities	
Other revenue	<u>14,591</u>
Cash flows from capital and related financing activities	
Purchase of property, plant and equipment	(456,742)
Principal paid on bonds	(55,000)
Interest expense	<u>(173,525)</u>
Net cash used in capital and related financing activities	<u>(685,267)</u>
Cash flows from investing activities	
Purchase of investments	399,226
Interest earnings	<u>97,549</u>
Net cash provided by investing activities	<u>496,775</u>
Net decrease in cash and cash equivalents	(205,459)
Cash and cash equivalents, beginning of year	<u>1,122,544</u>
Cash and cash equivalents, end of year	<u>\$ 917,085</u>

The accompanying notes are an integral part of these general purpose financial statements.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the *City of Mackinac Island* (the "City") conform to accounting principles generally accepted in the United States of America (with the exception of exclusion of the general fixed assets account group) as applicable to governmental units.

Reporting Entity

The City has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that the component unit discussed below should be included in its general purpose financial statements. The criteria for including a component unit include significant operational or financial relationships with the City.

Fire Hall Building Authority - The Fire Hall Building Authority is a blended component unit of the City of Mackinac Island.

Fund Accounting

The accounts of the City are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds and account group are grouped in the general purpose financial statements as follows:

Governmental Funds

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund

Enterprise Fund - The enterprise fund reports operations that provide services to citizens financed primarily by a user charge or activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Group

General Long-Term Debt Account Group - This account group is established to account for all unmatured long-term indebtedness of the government that is not directly related to and expected to be paid from the proprietary fund.

Total Columns on Combined Statements

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

All governmental, expendable trust and agency funds are accounted for using the modified accrual basis. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include payments in lieu of taxes, state and federal sources, and intergovernmental revenues. Other revenue sources such as licenses, permits, charges for services, sales, fees, fines, rentals and others are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred with certain exceptions such as interest on long-term debt which is generally recognized when due.

All governmental funds and the expendable trust fund are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measurement of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

The proprietary fund is accounted for using the full accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with its activity are included on its balance sheet. Its reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The City has elected to apply Governmental Accounting Standards Board Statement No. 20, paragraph 7, which allows the City to apply only those Financial Accounting Standards Board pronouncements issued before November 30, 1989 to the City's proprietary fund.

Budgets and Budgetary Accounting

Budgets shown in the general purpose financial statements are adopted and amended on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations are approved by the City Council on a functional level for the general fund and a fund level for the special revenue funds.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Encumbrances

The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts, and short-term certificates of deposits with an original maturity of three months or less. Most cash balances in the various funds are pooled and invested in a money market account. Interest earned with pooled cash is allocated to each of the funds based on the fund's average cash balance.

Investments

Investments are stated at fair value and consist of certificates of deposit.

Receivables

All receivables are reported at their gross value.

Due To/From Other Funds

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund receivables or payables have been recorded.

Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for the repayment of principal and interest, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Cash for reserved and designated purposes is classified as restricted cash and cash equivalents in the Special Revenue Funds, the Debt Service Funds and the Enterprise Fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Fixed Assets and Long-Term Liabilities

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. The accounting principles generally accepted in the United States of America require these related assets to be reported in a General Fixed Assets Account Group. The City does not currently maintain a General Fixed Assets Account Group.

Fixed assets of proprietary funds are valued at historical cost and depreciation of all exhaustible fixed assets is charged as an expense against its operations. Depreciation has been provided over the estimated useful lives of the related assets using the straight-line method.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

The General Long-Term Debt Account Group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with the measurement of results of operations.

Reserves and Designations

Reserved fund balance/retained earnings indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

Property Tax Revenue Recognition

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are turned over to Mackinac County for collection, which advances the City 100% of the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes are levied and payable in two installments in July and December of each year and recognized as revenue in the City's fiscal year.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Grants and Other Intergovernmental Revenues

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs.

Compensated Absences

At March 31, 2004, no accumulated vacation, sick leave, or other compensated absence liabilities are presented in the general purpose financial statements due to the insignificance of the amount at year end.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying general purpose financial statements generally reflect such transactions as operating transfers.

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or out, unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Risk Management and Litigation

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the general purpose financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the functional level for the general fund and the fund level for the special revenue funds.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

During the year ended March 31, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Variance</u>
General Fund			
General government	\$ 480,871	\$ 517,716	\$ (36,845)
Public safety	905,025	931,501	(26,476)
Public works	211,750	226,343	(14,593)
Other functions	151,500	167,609	(16,109)
Operating transfers out	241,975	277,592	(35,617)
Special Revenue Funds			
Building department	76,000	78,044	(2,044)
Library	51,525	52,858	(1,333)

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The captions on the combined balance sheet relating to cash, cash equivalents and investments, and the amounts in the total (memorandum only) column are as follows:

Cash and cash equivalents	\$ 901,364
Restricted cash and cash equivalents	994,925
Investments	30,000
Restricted investments	<u>8,791</u>
	<u>\$ 1,935,080</u>

Investments, including restricted investments, consist of certificates of deposit of \$38,791 with an original maturity of greater than three months, which are classified as a deposit for risk classification purposes.

At year-end, the carrying amount of the City's deposits was \$1,935,080 and the bank balance was classified as to risk as follows:

Insured (FDIC)	\$ 123,896
Uninsured – uncollateralized	<u>1,790,226</u>
Total	<u>\$ 1,914,122</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Statutory Authority

The City is authorized by Michigan law to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and maturing not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds, registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. PROPRIETARY FUND TYPE FIXED ASSETS

A summary of proprietary fund type fixed assets is as follows at March 31, 2004:

	<u>Landfill</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Depreciable Life-Years</u>
Buildings	\$1,096,851	\$ -	\$ 3,150	\$ 1,100,001	35-40
Water system	-	6,312,659	-	6,312,659	20-40
Water and sewer lines	-	3,350,410	2,974,794	6,325,204	40
Sewer system	-	-	6,090,400	6,090,400	7-75
Machinery and equipment	1,799,657	256,366	823,993	2,880,016	3-40
Trucks	<u>-</u>	<u>5,447</u>	<u>5,447</u>	<u>10,894</u>	8
Total property, plant and equipment	2,896,508	9,924,882	9,897,784	22,719,174	
Less: accumulated depreciation	<u>1,290,564</u>	<u>3,557,315</u>	<u>4,100,269</u>	<u>8,948,148</u>	
Property, plant and equipment, net	<u>\$1,605,944</u>	<u>\$6,367,567</u>	<u>\$ 5,797,515</u>	<u>\$13,771,026</u>	

5. LONG-TERM OBLIGATIONS

A summary of long-term obligations and transactions related thereto is as follows at March 31, 2004, and for the year then ended:

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance March 31, 2004</u>
General long-term debt				
Note payable to State of Michigan, due in annual installments of \$125,656 including interest charged at 4% through fiscal 2005.	\$ 237,001	\$ -	\$ (116,176)	\$ 120,825

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance March 31, 2004</u>
Fire truck installment loan payable to National City Bank due in annual installments of \$41,830 including interest charged at 2.99% through fiscal 2014.	\$ -	\$ 336,286	\$ -	\$ 336,286
Total notes payable	<u>237,001</u>	<u>336,286</u>	<u>(116,176)</u>	<u>457,111</u>
1997 Building Authority Bonds payable to First National Bank of St. Ignace, due in annual principal installments ranging from \$50,000 to \$75,000, interest ranging from 4.65% - 4.95% due in semi-annual installments through fiscal 2010.	425,000	-	(50,000)	375,000
1999 Michigan Transportation Fund Bonds payable to Michigan Transportation Fund, due in annual principal installments ranging from \$15,000 to \$20,000, interest ranging from 4.7 % - 5.1% due in semi-annual installments through fiscal 2011.	<u>140,000</u>	<u>-</u>	<u>(15,000)</u>	<u>125,000</u>
Total bonds payable	<u>565,000</u>	<u>-</u>	<u>(65,000)</u>	<u>500,000</u>
Total general long-term debt	<u>802,001</u>	<u>336,286</u>	<u>(181,176)</u>	<u>957,111</u>
Proprietary Fund (Water and Sewer System) Debt				
5.5% revenue bonds payable to North Country Bank & Trust, due in annual principal installments ranging from \$55,000 to \$215,000, interest due in semi-annual installments through fiscal 2028.	<u>3,210,000</u>	<u>-</u>	<u>(55,000)</u>	<u>3,155,000</u>
Total long-term debt	<u>\$4,012,001</u>	<u>\$ 336,286</u>	<u>\$ (236,176)</u>	<u>\$4,112,111</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

The annual requirements to amortize all long-term debt outstanding including interest payments of \$2,621,705 on bonded indebtedness and \$63,588 on contractual indebtedness, are as follows as of March 31, 2004:

<u>Year Ending March 31,</u>	<u>Water and Sewer System</u>	<u>General Obligation</u>	<u>Total</u>
2005	\$ 295,225	\$ 260,119	\$ 555,344
2006	236,650	131,148	367,798
2007	237,800	132,690	370,490
2008	233,675	138,823	372,498
2009	234,550	134,665	369,215
2010 – 2014	1,176,250	304,784	1,481,034
2015 – 2019	1,184,950	-	1,184,950
2020 – 2024	1,186,625	-	1,186,625
2025 – 2028	<u>909,450</u>	<u>-</u>	<u>909,450</u>
	<u>\$ 5,695,175</u>	<u>\$ 1,102,229</u>	<u>\$ 6,797,404</u>

6. INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 20,631	\$ 13,873
Special revenue funds -		
Library Fund	1,128	-
Building Department Fund	3,745	-
Enterprise Fund	9,000	-
Trust and agency fund -		
Tax Collection Fund	<u>-</u>	<u>20,631</u>
	<u>\$ 34,504</u>	<u>\$ 34,504</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

7. RESERVES AND DESIGNATIONS

Fund balance reserves are summarized as follows:

Special Revenue Fund-Library Reserved for capital outlay	\$ 94,612
Debt Service Funds-Reserved for debt service	163,974
Expendable Trust Fund Reserved for cemetery perpetual care	85,302
Total fund balance reserved	\$ 339,161

Retained earnings reserves are summarized as follows:

Enterprise Fund Reserved for future maintenance	\$ 313,085
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Fund balance designations are summarized as follows:

General Fund Designated for Veteran's Memorial Park	\$ 7,454
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Capital projects funds

Capital Outlay Fund designated for:

Boardwalk	139,990
City/Fire Hall	60,492
Fire truck	45,435
Courthouse	33,301
Community hall	26,734
Library building	20,123
Buildings – general	14,789
Stuart House maintenance	12,043
Restrooms maintenance	14,674
Housing	14,671
Road Improvements	81,092

Total capital projects funds	463,344
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Total designated fund balance	\$ 470,798
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CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

8. CONTRIBUTED CAPITAL

The changes in contributed capital in the enterprise fund are as follows for the year ended March 31, 2004:

Contributed capital - April 1, 2003	\$ 8,459,156
Less: depreciation	<u>338,629</u>
Contributed capital - March 31, 2004	<u>\$ 8,120,527</u>

9. CONTINGENCY

Under the terms of various grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies; however, City management does not believe such disallowances, if any, will be material to the financial position of the City.

10. COMMITMENT

The City was granted a U.S. Housing and Urban Development (HUD) grant during the year ended March 31, 2001 for \$700,000. The expenditures are to be paid by the City and then submitted to HUD for reimbursement. The City has spent and received reimbursement for \$616,724 as of March 31, 2004.

**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES**

GENERAL FUND

CITY OF MACKINAC ISLAND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Legislative			
City council	\$ 17,000	\$ 12,966	\$ 4,034
General government			
City administrator	9,550	9,128	422
Elections	2,490	2,515	(25)
Professional services	226,000	257,579	(31,579)
Assessor	35,175	35,583	(408)
Clerk	34,693	34,298	395
Treasurer	37,503	38,086	(583)
Board of review	550	-	550
Planning commission	3,900	2,328	1,572
Traffic greeters	26,000	30,340	(4,340)
City hall and other property	105,010	107,859	(2,849)
Total general government	480,871	517,716	(36,845)
Public safety			
Police department	466,050	484,512	(18,462)
Fire department	397,975	406,635	(8,660)
Ambulance	26,000	25,354	646
Medical center	15,000	15,000	-
Total public safety	905,025	931,501	(26,476)
Public works			
Street lighting	12,000	11,792	208
Other	199,750	214,551	(14,801)
Total public works	211,750	226,343	(14,593)
Culture and recreation			
Recreation department	66,678	65,805	873
Parks	15,975	15,637	338
Total culture and recreation	82,653	81,442	1,211
Other functions			
Fly control	5,400	4,561	839
Insurance	146,100	163,048	(16,948)
Total other functions	151,500	167,609	(16,109)

Continued...

CITY OF MACKINAC ISLAND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Debt Service			
Principal	\$ 4,200	\$ -	\$ 4,200
Interest	300	-	300
Total debt service	<u>4,500</u>	<u>-</u>	<u>4,500</u>
Total expenditures	1,853,299	1,937,577	(84,278)
Other financing uses			
Operating transfers out	<u>241,975</u>	<u>277,592</u>	<u>(35,617)</u>
Total expenditures and other financing uses	<u><u>\$ 2,095,274</u></u>	<u><u>\$ 2,215,169</u></u>	<u><u>\$ (119,895)</u></u>
			Concluded

SPECIAL REVENUE FUNDS

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET SPECIAL REVENUE FUNDS

MARCH 31, 2004

	Major Streets	Local Streets	Library
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 1,816
Due from other funds	-	-	1,128
Due from other governmental units	27,574	-	-
Restricted cash and cash equivalents	-	-	94,612
Total assets	\$ 27,574	\$ -	\$ 97,556
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	\$ -	\$ -	\$ 1,128
Fund balances			
Reserved	-	-	94,612
Unreserved - undesignated	27,574	-	1,816
Total fund balances	27,574	-	96,428
Total liabilities and fund balances	\$ 27,574	\$ -	\$ 97,556

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 1,816
-	3,745	4,873
-	-	27,574
-	-	94,612
<u>\$ -</u>	<u>\$ 3,745</u>	<u>\$ 128,875</u>
 \$ -	 \$ 3,745	 \$ 4,873
-	-	94,612
-	-	29,390
-	-	124,002
<u>\$ -</u>	<u>\$ 3,745</u>	<u>\$ 128,875</u>

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED MARCH 31, 2004

	Major Streets	Local Streets	Library
Revenues			
State revenue	\$ 136,982	\$ 16,015	\$ 434
Federal revenue	-	-	1,100
Charges for services	-	-	8,774
Fines and forfeits	-	-	6,543
Interest and dividends	-	-	2,046
Contributions	-	-	2,294
Miscellaneous	-	-	910
Total revenues	136,982	16,015	22,101
Expenditures			
General government	-	-	-
Public works	160,268	118,845	-
Culture and recreation	-	-	52,858
Total expenditures	160,268	118,845	52,858
Revenues under expenditures	(23,286)	(102,830)	(30,757)
Other financing sources (uses)			
Operating transfers in	56,737	102,830	31,713
Operating transfers out	(21,710)	-	-
Total other financing sources	35,027	102,830	31,713
Revenues and other sources over expenditures	11,741	-	956
Fund balances, beginning of year	15,833	-	95,472
Fund balances, end of year	\$ 27,574	\$ -	\$ 96,428

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 153,431
-	-	1,100
1,500	10,241	20,515
-	-	6,543
-	-	2,046
-	-	2,294
-	-	910
<u>1,500</u>	<u>10,241</u>	<u>186,839</u>
20,009	-	20,009
-	78,044	357,157
-	-	52,858
<u>20,009</u>	<u>78,044</u>	<u>430,024</u>
<u>(18,509)</u>	<u>(67,803)</u>	<u>(243,185)</u>
18,509	67,803	277,592
-	-	(21,710)
<u>18,509</u>	<u>67,803</u>	<u>255,882</u>
-	-	12,697
-	-	111,305
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,002</u>

DEBT SERVICE FUNDS

CITY OF MACKINAC ISLAND

DEBT SERVICE FUNDS COMBINING BALANCE SHEET

MARCH 31, 2004

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	1999 State Infrastructure Bank Loan	Total
ASSETS				
Taxes receivable	\$ 2,584	\$ -	\$ 1,846	\$ 4,430
Restricted cash and cash equivalents	136,016	-	23,528	159,544
Total assets (equal to reserved fund balance)	\$ 138,600	\$ -	\$ 25,374	\$ 163,974

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES DEBT SERVICE FUNDS

FOR THE YEAR ENDED MARCH 31, 2004

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	1999 State Infrastructure Bank Loan	Total
Revenues				
Taxes	\$ 53,546	\$ -	\$ 38,245	\$ 91,791
Refunds	-	-	85,543	85,543
Interest and dividends	2,540	-	467	3,007
Total revenues	56,086	-	124,255	180,341
Expenditures				
Principal payments	50,000	15,000	116,176	181,176
Interest and paying agent fees	19,250	6,710	9,480	35,440
Total expenditures	69,250	21,710	125,656	216,616
Revenues under expenditures	(13,164)	(21,710)	(1,401)	(36,275)
Other financing sources				
Operating transfers in	-	21,710	-	21,710
Revenues and other sources (under) over expenditures	(13,164)	-	(1,401)	(14,565)
Fund balances, beginning of year	151,764	-	26,775	178,539
Fund balances, end of year	\$ 138,600	\$ -	\$ 25,374	\$ 163,974

CAPITAL PROJECTS FUNDS

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET CAPITAL PROJECTS FUNDS

MARCH 31, 2004

	<u>Capital Outlay</u>	<u>Hoban Road Project</u>	<u>Court House Project</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 452,440	\$ 101,223	\$ -	\$ 553,663
Investments	30,000	-	-	30,000
Taxes receivable	738	-	-	738
Due from other governmental units	-	-	-	-
Total assets	<u><u>\$ 483,178</u></u>	<u><u>\$ 101,223</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 584,401</u></u>
FUND BALANCES				
Unreserved				
Designated	\$ 463,344	\$ -	\$ -	\$ 463,344
Undesignated	19,834	101,223	-	121,057
Total fund balances	<u><u>\$ 483,178</u></u>	<u><u>\$ 101,223</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 584,401</u></u>

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES CAPITAL PROJECTS FUNDS

FOR THE YEAR ENDED MARCH 31, 2004

	<u>Capital Outlay</u>	<u>Hoban Road Project</u>	<u>Court House Project</u>	<u>Total</u>
Revenues				
Taxes	\$ 15,295	\$ -	\$ -	\$ 15,295
Federal revenue	-	-	51,083	51,083
Interest and dividends	8,732	3,884	-	12,616
Miscellaneous	-	-	-	-
Total revenues	24,027	3,884	51,083	78,994
Expenditures				
Capital improvements	15,500	-	51,083	66,583
Revenues over expenditures	8,527	3,884	-	12,411
Other financing uses				
Transfer out	-	(100,000)	-	(100,000)
Fund balances, beginning of year	474,651	197,339	-	671,990
Fund balances, end of year	\$ 483,178	\$ 101,223	\$ -	\$ 584,401

TRUST AND AGENCY FUNDS

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET TRUST AND AGENCY FUNDS

MARCH 31, 2004

	Expendable Trust Fund Cemetery Perpetual Care	Agency Fund Tax Collection	Total
ASSETS			
Cash and cash equivalents	\$ 88,302	\$ 20,631	\$ 108,933
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ -	\$ 20,631	\$ 20,631
Fund balances			
Reserved for cemetery perpetual care	88,302	-	88,302
Total liabilities and fund balances	\$ 88,302	\$ 20,631	\$ 108,933

CITY OF MACKINAC ISLAND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND TAX COLLECTION FUND

FOR THE YEAR ENDED MARCH 31, 2004

	Balance April 1, 2003	Additions	(Deductions)	Balance March 31, 2004
ASSETS				
Cash and cash equivalents	<u>\$ 19,760</u>	<u>\$ 4,048,822</u>	<u>\$ (4,047,951)</u>	<u>\$ 20,631</u>
LIABILITIES				
Due to other funds	\$ 19,760	\$ 1,329,141	\$ (1,328,270)	\$ 20,631
Due to county	-	1,510,653	(1,510,653)	-
Due to school	-	1,072,192	(1,072,192)	-
Due to ISD	-	136,836	(136,836)	-
Total liabilities	<u>\$ 19,760</u>	<u>\$ 4,048,822</u>	<u>\$ (4,047,951)</u>	<u>\$ 20,631</u>

SCHEDULE OF BONDED AND CONTRACTUAL INDEBTEDNESS

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2004

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2004</u>	<u>Interest Payable if Held to Maturity</u>
General obligation bonds					
1997 Building Authority Bond	\$ 630,000	4.65	6/01/04	\$ 55,000	\$ 16,821
Payments due		4.75	6/01/05	55,000	14,236
Principal and interest - June 1		4.80	6/01/06	60,000	11,490
Interest only - December 1		4.85	6/01/07	65,000	8,474
		4.90	6/01/08	65,000	5,305
		4.95	6/01/09	75,000	1,856
				<u>375,000</u>	<u>\$ 58,182</u>
1999 Michigan Transportation Fund Bond	170,000	5.00	08/01/04	15,000	\$ 5,810
Payments due		4.70	08/01/05	15,000	5,083
Principal and interest - August 1		4.80	08/01/06	15,000	4,370
Interest only - February 1		4.90	08/01/07	20,000	3,520
		5.00	08/01/08	20,000	2,530
		5.05	08/01/09	20,000	1,525
		5.10	08/01/10	20,000	510
				<u>125,000</u>	<u>\$ 23,348</u>
Total general obligation bonded indebtedness				<u>\$ 500,000</u>	

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2004

	Original Amount of Issue	Interest Rate	Date of Maturity	Amount Outstanding March 31, 2003	Interest Payable if Held to Maturity
Enterprise fund					
Sanitary Sewage Disposal and Water	\$ 3,350,000	5.50	03/01/05	\$ 125,000	\$ 170,225
Supply System Revenue Refunding		5.50	03/01/06	70,000	166,650
Bonds, Series 1999		5.50	03/01/07	75,000	162,800
Payments due		5.50	03/01/08	75,000	158,675
Principal and interest - March 1		5.50	03/01/09	80,000	154,550
Interest only - September 1		5.50	03/01/10	85,000	150,150
		5.50	03/01/11	90,000	145,475
		5.50	03/01/12	95,000	140,525
		5.50	03/01/13	100,000	135,300
		5.50	03/01/14	105,000	129,800
		5.50	03/01/15	110,000	124,025
		5.50	03/01/16	120,000	117,975
		5.50	03/01/17	125,000	111,375
		5.50	03/01/18	135,000	104,500
		5.50	03/01/19	140,000	97,075
		5.50	03/01/20	145,000	89,375
		5.50	03/01/21	155,000	81,400
		5.50	03/01/22	165,000	72,875
		5.50	03/01/23	175,000	63,800
		5.50	03/01/24	185,000	54,175
		5.50	03/01/25	195,000	44,000
		5.50	03/01/26	205,000	33,275
		5.50	03/01/27	215,000	22,000
		5.50	03/01/28	185,000	10,175
Total enterprise fund bonded indebtedness				3,155,000	\$ 2,540,175
Total bonded indebtedness				\$ 3,655,000	
General obligation notes payable					
1999 state infrastructure bank loan		4.00%	08/01/04	\$ 120,825	\$ 4,833
2003 Fire truck loan			10/31/04	32,333	9,496
			10/31/05	31,830	10,000
			10/31/06	32,877	8,953
			10/31/07	33,959	7,871
			10/31/08	35,076	6,754
			10/31/09	36,230	5,600
			10/31/10	37,422	4,408
			10/31/11	38,653	3,177
			10/31/12	39,925	1,905
			10/31/13	17,981	592
				336,286	58,756
Total general obligation notes payable				\$ 457,111	\$ 63,589

Concluded



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 13, 2004

Honorable Mayor and Members
of the City Council
City of Mackinac Island
Mackinac Island, MI 49721

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the ***City of Mackinac Island*** for the year ended March 31, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to future financial reporting responsibilities, an opportunity for improving operating efficiency, and other matters of the ***City of Mackinac Island***. This letter does not affect our report dated August 13, 2004 on the financial statements of the ***City of Mackinac Island***.

We have already discussed these comments with the management of the City, and we would be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2004-2005.

Encl.1

Financial Statement Reporting Model

The Governmental Accounting Standards Board has issued Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This Statement has been called the most comprehensive governmental accounting rule ever developed and will significantly affect the manner in which the City’s financial statements are presented. Some of the key changes will include:

- Requiring a management’s discussion and analysis section in the financial report.
- Reporting the City’s “Balance sheet” and “Income statement” on an entity wide basis.
- Reporting all capital assets of the City with the exception of infrastructure. The City will only be required to report infrastructure prospectively.
- Recording depreciation on all City assets.
- Adjusting the focus of the income statement to a “types of service” format.
- Reporting both original and amended budgets.

The City will be required to adopt GASB 34 for the year ended March 31, 2005. Preparing the City’s financial records for the changes required by the new statement can be expected to require a significant amount of time and effort by the City’s management and accounting staff.

Connect Fees

City of Mackinac Island Ordinance #197 states that there shall be a connect fee assessed to any user of the water and sewer system at the time the services are first provided, when a user increases their usage by expansion of the property or when there is a change in the type of usage. Currently the DPW does not have a system in place to identify the parcels that should be assessed the impact fee and therefore the related revenue is not being recorded timely. We have recommended to the DPW procedures which will allow for coordination between the City Building Inspector and the DPW to ensure a connection fee is collected prior to the customer receiving water and sewer service.

Michigan Finance Qualifying Statement

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury’s website. The City Clerk must call the Local Audit and Finance Division of the Department of Treasury (517) 373-0660 and establish a password in order to submit the qualifying statement electronically.

Electronically Filing the Financial Statements

The Michigan Department of Treasury (the "Treasury") has issued Numbered Letter 2004-5 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. Although this filing process is not mandated at this time, the Treasury is strongly recommending that all governmental units file their year end audit reports including the Auditing Procedures Report (496) and management comment and recommendation letter electronically. We have provided the necessary information, in this electronic format, to the City Clerk to enable the City to comply.

Conclusion

As always, it has been a pleasure to provide audit services to the *City of Mackinac Island*. The City's accounting personnel are very conscientious and most helpful. The accounting records were in good order and all audit information requests were satisfied promptly.

We appreciate your business! Thank you.